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FM AMEMBASSY TIRANA  
TO RUEHC/SECSTATE WASHDC PRIORITY 4003  
INFO RUEHTH/AMEMBASSY ATHENS 2850  
RUEHBW/AMEMBASSY BELGRADE 2665  
RUEHRL/AMEMBASSY BERLIN 1104  
RUEHSW/AMEMBASSY BERN 0339  
RUEHLO/AMEMBASSY LONDON 1157  
RUEHFR/AMEMBASSY PARIS 1047  
RUEHRO/AMEMBASSY ROME 5199  
RUEHVJ/AMEMBASSY SARAJEVO 0385  
RUEHSQ/AMEMBASSY SKOPJE 4057  
RUEHVB/AMEMBASSY ZAGREB 2889  
RUFNPKB/COMUSNAVEUR NAPLES IT  
RUCPDO/DEPT OF COMMERCE WASHDC  
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RHEHNSC/NSC WASHDC  
RUEHBS/USEU BRUSSELS  
RUEHPS/USOFFICE PRISTINA 3360

C O N F I D E N T I A L TIRANA 000281

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STATE FOR EUR/SCE (MBENEDICT/DSAINZ/WILLIS)  
NSC FOR BRAUN  
TREASURY FOR ATUKORALA  
USDOC FOR 4233/ITA/MAC/OEERIA/CEED (MROGERS)  
USDOC FOR 30004/ITA/CS/ADVOCACY CENTER (PASS TO WILL CENTER)  
ROME PASS TO FCS (KWARE)

E.O. 12958: DECL: 03/18/2016

TAGS: [EINV](#) [ENRG](#) [EPET](#) [AL](#)

SUBJECT: MAJOR LNG AND POWER PROJECT NEARER REALIZATION;  
WORLD BANK OPPOSITION POSSIBLE

REF: A. TIRANA 176

[1](#)B. 04 TIRANA 194

Classified By: DCM Steven E. Zate for  
reasons 1.4 (b) and (d).

[1](#)1. (C) SUMMARY: ASG Power, a U.S.-Swiss consortium, received GoA permission on March 13 to undertake final feasibility and environmental studies to build a 1.9 billion LNG re-gasification facility and 1200 megawatt power plant near Fier. Gas and electricity will mostly be exported to Italy, but a large part of Albania's energy needs could likely also be met. A senior GoA official expressed concern, however, that the World Bank was overreaching on its request that the GoA cancel all concession negotiations based on unsolicited proposals, regardless of project merit or investor reliability and that such a request could be interpreted to apply to even green-field projects like ASG's. This would lower investor confidence below current abysmal levels and cause unacceptable delays in the development of the energy sector. End summary.

#### Project History, Details, Justification

[1](#)2. (SBU) In late 2003, a Swiss-U.S consortium (now called ASG Power) approached the GoA with a proposal to build a 1200 megawatt gas-fired power plant in southern Albania (ref B). ASG believed that most of the electricity generated could be supplied by undersea cable to Italy. Over the next two years, ASG did more preliminary studies and it became apparent that gas supply issues would endanger the project's feasibility. To remedy the situation, the scope of the project was expanded to include a port for LNG tankers to

off-load, a re-gasification facility to handle 10 billion cubic meters of gas per year, and an undersea gas pipeline to Italian markets and the European gas network. At the same time, ASG apparently secured commitments from Italian operators and the Italian government to make pipeline and energy cable connections in Italy and to purchase power and gas. Gas suppliers in Qatar and Algeria have expressed interest in shipping LNG to the facility. Swiss operator Azienda Elettrica Ticinese also agreed to extend credit to ASG for USD 15 million to conduct final feasibility and environmental studies.

13. (C) As it currently is envisioned, the project would cost roughly USD 1.9 billion and would represent one of the largest private investments in the Balkans. Originally proposed to be located at Vlore, ASG agreed to move it north several kilometers to the district of Fier in order to respond to GoA political concerns about the opposition of Vlore's residents to large energy projects. The proposed location is completely undeveloped and not suitable for other development -- roads, a port terminal, electrical grid connections, etc. would all have to be constructed. Companies which have expressed interest in the construction of the project include U.S. based firms Black & Vietch, General Electric, and Chicago Iron. Ex-Im Bank has also provided letters of interest in support of financing the project or providing political risk insurance.

14. (C) ASG believes the project is feasible because Italy's gas and electrical demands are so great that this project, and others on the table, cannot by themselves satisfy demand. ASG seems certain of this principle -- they obligingly gave up a request for exclusivity within Albania for the project concept -- another proposal for the same concept is under consideration by the GoA and its proponents do not believe that exclusivity is needed. The location of the project in Albania appears largely due to NIMBY-type concerns and slow licensing procedures in Italy.

#### Tough Negotiation

15. (C) On March 13, after several weeks of notably serious negotiations, ASG obtained a "Memorandum of Understanding" from the GoA which will allow ASG to move forward to conduct final studies and obligated the GoA to expeditiously process ASG's licensing and land-lease applications. Ministry of Energy Deputy Minister Bojaxhi led the team of GoA officials who negotiated the deal. Although Bojaxhi has expressed reservations to us about ASG's abilities to pull off a project of such magnitude, he told us that the GoA would not be the one who stood in the way of such an investment. ASG will have nine months to complete the studies and propose a final agreement with the GoA. Such an agreement would address what amounts of power and gas could be diverted to the Albanian market and at what price. Potentially, the project could go far in addressing Albania's severe energy shortages.

#### World Bank Interference Possible

16. (C) On March 14, Bojaxhi told us that he was concerned that the World Bank was taking a particularly hard line on the issue of concessions, demanding that all future concessions, including those in advanced stages of negotiation, should be issued by the GoA only through competitive bidding processes. Bojaxhi said the Bank's position might even apply to this project -- even though it is not a concession (no valuable or strategic resource is being used) -- because the Bank was claiming that all energy projects were concessions. If the GoA adopted the Bank's view on this, according to Bojaxhi, this project, approximately 25 small hydropower concessions, and the larger Bratille hydropower project (in which General Electric has invested; see ref A) would be in danger of cancellation, and future badly-needed investments delayed for years.

Comment: Good News

¶7. (C) The GoA's shaky start with foreign investors (see ref A) may be smoothing out. The seriousness, degree and depth of the GoA's involvement in the negotiations with ASG the last few weeks was unprecedented in Embassy's experience.

Comment: Bad News

¶8. (C) Bojaxhi's concerns about the World Bank seem legitimate. The Bank's overly mechanistic, blinkered view provides no greater guarantee of transparency in dealings -- competitive tenders here have a particularly poor track record and reputable investors who have put in substantial time and energy in fully transparent dealings to improve infrastructure here will be driven away. And, it is certain that development, especially in the critical energy sector, will be unnecessarily delayed. Similar criticisms from the Bank in the GE railway procurement contract case may have carried more weight -- the Bank could then arguably contend that the GoA was indirectly using other Bank financing in a way the Bank did not like.

¶9. (C) With concessions, however, the GoA is not spending anyone's money, rather earning money from private investment to develop strategic resources. It is difficult enough to get reputable companies to come to Albania to make proposals. Potentially kicking out major companies who have already undertaken the risk to come here on their own is not likely to result in more investment through Bank-recommended tender procedures. Moreover, no GoA money exists to conduct feasibility studies for development of strategic resources, making competitive tenders even more unlikely to occur for several years. More worrisome, if the Bank takes the position that all energy projects, including green-field projects like ASG's, are considered concessions, then private investment in the energy sector will very likely come to a crashing halt when energy-starved Albania can least afford it.  
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